

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF THE RATES OF KENTUCKY-AMERICAN WATER COMPANY)	CASE NO.
)	2000-120

ORDER

On November 27, 2000, the Commission entered an Order in this proceeding in which it addressed the reasonableness of Kentucky-American Water Company's ("Kentucky-American") proposed rate adjustment and established new rates for water service. Having discovered certain errors concerning the calculation of those rates, the Commission amends its Order to reflect changes discussed below. These amendments reduce the authorized increase in Kentucky-American's annual operating revenues from \$2,517,651, or 6.49 percent, to \$2,170,680, or 5.57 percent.

Net Investment Rate Base. During the proceeding, Kentucky-American proposed a net adjustment to increase forecasted contributions in aid of construction ("CIAC") by \$377,000 to reflect changes in its construction schedules. In our Order of November 27, 2000, we accepted this adjustment.¹ In calculating Kentucky-American's net investment rate base, we decreased rather than increased CIAC by this amount.² A revised calculation of Kentucky-American's net investment rate base is set forth in Appendix A to this Order.

¹ Order of November 27, 2000 at 12.

² Id. at 33.

Sales for Resale. In our Order of November 27, 2000, the Commission found that Kentucky-American's forecasted sales of 567,837 ccf should be adjusted to reflect adjusted sales of 667,437 ccf. We based this adjustment on a three-year average annual usage of Kentucky-American's resale customers. While we found that forecasted sales should be increased, we erroneously decreased the revenue from resale customers by \$15,333.³ Based upon adjusted sales of 667,437 ccf, the amount of revenue from sales for resale should have been increased by \$133,912. This increase is reflected in the calculation of Kentucky-American's adjusted operating income as set forth in Appendix A.

Bluegrass Water Project – Community Education. In our Order of November 27, 2000, the Commission refused Kentucky-American's request to afford rate-making treatment for community education expenses related to the Bluegrass Water Project.⁴ While the Commission excluded such costs when calculating Kentucky-American's net investment rate base, we failed to remove the proposed amortization of this expense of \$100,476 from Kentucky-American's proposed income statement. Removal of this expense results in a decrease to net operating income of \$59,921.

Other Adjustments. Based on the adjustment to CIAC, the Commission has recalculated forecasted interest expense to be \$5,557,385, which results in a revised decrease to net operating income of \$73,639 rather than the \$61,246 included in the

³ Id. at 36.

⁴ Id. at 32.

Order of November 27, 2000. Based on the decrease in amortization expense, forecasted working capital allowance has been reduced by \$37,063.⁵

Rate Design. In our Order of November 27, 2000, we expressly found that no change to public and fire protection rates should be made.⁶ The rates appended to that Order, however, contained modest changes to those rates and were not consistent with our findings. The rates set forth in Appendix B to this Order are consistent with this finding.

Summary. Based upon the discussion set forth above, the Commission finds that,

1. Based upon forecasted test year operations, as adjusted, Kentucky-American requires rates that will produce annual revenues of approximately \$41,142,392.

2. Kentucky-American requires an adjustment of rates that will produce additional annual operating revenues of \$2,170,680.

3. Kentucky-American's proposed rates will generate revenues in excess of those found reasonable.

4. The rates set forth in Appendix B to this Order will produce revenue from water sales in the amount of \$41,142,392.

⁵ In our Order of November 27, 2000, we reduced forecasted working capital allowance by \$31,070. Id. at 33. For the effect on this revision, see Appendix A to this Order.

⁶ Order of November 27, 2000 at 68.

IT IS THEREFORE ORDERED that:

1. All findings and conclusions of the Order of November 27, 2000 that do not conflict with those contained herein are incorporated by reference and are adopted as if fully set forth herein.

2. All findings and conclusions of the Order of November 27, 2000 that conflict with those contained herein are hereby vacated and are replaced with those set forth herein.

3. The rates set forth in Appendix B are approved for service rendered by Kentucky-American on and after November 27, 2000.

4. Within 20 days of the date of this Order, Kentucky-American shall file its revised tariff sheets setting forth the rates approved herein.

5. The time for filing an application for rehearing of the Commission's Order of November 27, 2000 shall begin to run from the date of this Order.

Done at Frankfort, Kentucky, this 12th day of December, 2000.

By the Commission

ATTEST:


Executive Director

APPENDIX A

AN APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2000-120 DATED DECEMBER 12, 2000

TABLE I			
NET INVESTMENT RATE BASE			
	Kentucky-American Proposed 13-month Avg.	Commission Adjustments	Commission Approved
Utility Plant in Service	232,598,563	(1,254,550)	
		(67,945)	231,276,068
Utility Plant Acquisition	175,340	(175,340)	-
Adjustments			
Accumulated Depreciation	(45,671,737)	35,194	
		35,830	(45,600,713)
Accumulated Amortization	<u>(7,674)</u>	<u> </u>	<u>(7,674)</u>
Net Utility Plant in Service	187,094,492	(1,426,811)	185,667,681
Construction Work in Progress	5,454,134	(491,105)	4,963,029
Working Capital Allowance	1,176,000	(90,000)	
		(37,063)	1,048,937
Other Working Capital Allowance	485,820	(24,559)	461,261
Contributions in Aid of Construction	(23,864,445)	13,323	
		193,191	
		(377,000)	(24,034,931)
Customer Advances	(12,411,002)	569,712	(11,841,290)
Deferred Income Taxes	(23,598,127)	2,268,937	(21,329,190)
Deferred Investment Tax Credits	(152,717)		(152,717)
Deferred Maintenance	3,671,619		3,671,619
Deferred Debits	900,227	(638,399)	261,828
Other Rate Base Elements	(1,157,187)		(1,157,187)
KRS II Costs	456,521	(456,521)	-
KRS Residuals Project Costs	561,834	(561,834)	-
Bluegrass Water Project - Pipeline	3,358,227	(3,358,227)	-
Community Education Costs	452,115	(452,115)	-
Total	<u>142,427,511</u>	<u>(4,868,471)</u>	<u>137,559,040</u>

TABLE II			
AMENDED NET OPERATING INCOME			
	<u>Ky-American Proposed</u>	<u>Commission Adjustments</u>	<u>Commission Approved</u>
Operating Revenues	\$ 40,087,019	\$ 211,462	\$ 40,298,481
Operating Expenses	<u>29,425,878</u>	<u>(345,143)</u>	<u>29,080,735</u>
Net Operating Income	\$ <u>10,661,141</u>	\$ <u>556,605</u>	\$ <u>11,217,746</u>

TABLE III	
REQUIRED REVENUE INCREASE	
Amended Net Investment Rate Base	\$ 137,559,040
Commission Approved Weighted Cost of Capital	<u>9.09%</u>
Net Operating Income Found Reasonable	\$12,504,117
Less: Amended Net Operating Income	<u>11,217,746</u>
Operating Income Deficiency	\$ 1,286,371
Multiplied by: Gross-Up Factor	<u>1.687445</u>
Required Revenue Increase	\$ <u>2,170,680</u>

APPENDIX B

AN APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2000-120 DATED DECEMBER 12, 2000

The following rates and charges are prescribed for the customers in the area served by Kentucky-American Water Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

SERVICE CLASSIFICATION NO. 1

Meter Rates

The following shall be the rates for consumption, in addition to the service charges provided herein.

<u>Customer Category</u>	<u>Rate Per 1,000 Gallons All Consumption</u>	<u>Rate Per 100 Cubic Feet All Consumption</u>
Residential	\$2.20767	\$1.65576
Commercial	2.05197	1.53898
Industrial	1.67606	1.25705
Municipal and Other Public Authority	1.96602	1.47452
Sales for Resale	1.96602	1.47452

Service Charges

All metered general water service customers shall pay a service charge based on the size of meter installed. The service charge will not entitle the customer to any water.

<u>Size of Meter</u>	<u>Monthly Service Charge</u>
5/8 Inch	\$ 7.23
3/4 Inch	10.85
1 Inch	18.08
1-1/2 Inch	36.15
2 Inch	57.84
3 Inch	108.45
4 Inch	180.75
6 Inch	361.50
8 Inch	578.40

SERVICE CLASSIFICATION NO. 3

AVAILABILITY OF SERVICE

Available for municipal or private fire connections used exclusively for fire protection purposes.

Fire Service Rates

<u>Size of Service</u>	<u>Rate Per Month</u>	<u>Rate Per Annum</u>
2 Inch Diameter	\$ 4.00	\$ 48.00
4 Inch Diameter	16.00	192.00
6 Inch Diameter	35.96	431.52
8 Inch Diameter	63.92	767.04
10 Inch Diameter	99.88	1,198.56
12 Inch Diameter	143.85	1,726.20
14 Inch Diameter	195.82	2,349.84
16 Inch Diameter	255.70	3,068.40

Rates for Public Fire Service

	<u>Rate Per Month</u>	<u>Rate Per Annum</u>
For each public fire hydrant contracted for or ordered by urban county, county, state, or federal government agencies or institutions	\$23.96	\$287.52

Rates for Private Fire Service

	<u>Rate Per Month</u>	<u>Rate Per Annum</u>
For each private fire hydrant contracted for by industries or private institutions	\$35.96	\$431.52

HIDDEN LEAK ADJUSTMENT: A charge of twenty-five percent (25%) of the applicable tariffed rate will be applied to all water usage determined to be the result of a hidden underground leak.